2010 NALP Annual Education Conference

THE CITIGROUP PRIVATE BANK
LAW WATCH

Law Firm Profitability: A Shifting Dynamic

April 28, 2010

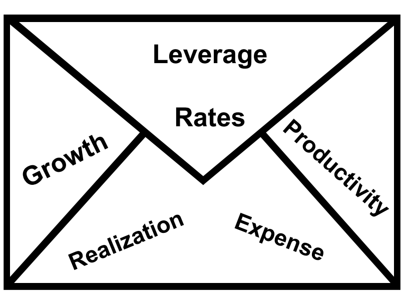
Citi's Credentials in the Legal Industry

Citi's Law Firm Group includes among its clients over 650 law firms and 38,000 lawyers

- **Thirty eight year track record**
- **Substantial resource commitment**
- **Adviser to the industry**
  - ➢ **Survey**
  - ➢ **Peer Reviews**
  - ➢ **Merger advice**
  - ➢ **Managing Partner Confidence Index (MPCI)**
  - ➢ **Trend Analysis**

The Law Firm Business Model

The traditional law firm business model includes six levers that drive profitability



The External Stress Factors

These six levers have been under unprecedented stress resulting from a number of dynamics in the marketplace

- Client consolidation
- Convergence & Casting a Wider Net
- Commoditization
- Heightened client demands
- Intensifying price pressure

Historical Context

2008-2009 were VERY different years vs. the 2000-2007 period

	2000 – 2007	2008-2009
Demand	Growing strongly	Declined
Headcount Growth	In line with demand	Declined
Equity Partner Growth	Drop in growth	Declined in a number of fiirms
Leverage	Increasing	Decreased
Productivity	Relatively steady	Significant decline
Rates	Steady increases	Increased but a slower pace
Margins	Generally Improving	Compression
Profits Per Partner	Double digit growth	Down each year
Top Tier	Outperformed industry	Underperformed industry

THE CITIGROUP PRIVATE BANK
LAW WATCH

Key Challenges Firms Are Facing in 2010 and Beyond

The Talent Dilemma

A confluence of factors has made retaining Talent – the underpinning of the model – increasingly difficult

- **Shifting demographics are increasing tensions within law firm partnerships**
- **Gen Y's different expectations and goals are creating disconnects between partners and associates**
- **Law firms' approach to Talent has not evolved in response to the above pressures and associate morale continues to decline**

The Talent Dilemma

Generation Y is demanding a different environment but not getting it…

Generation Y wants . . .	Historical law firm approach . . .
Great leaders/role models	Most partners not viewed as great leaders/managers
Lots of structured training/ development opportunities	Heavy reliance on ad hoc "on-the-job" training
Challenges/fast advancement/ respect for their abilities	"Pay your dues" mindset; staffing not systematically focused on matching talent with opportunities
Lots of feedback/open communication	Very little feedback until close to partnership
Fun, teamwork	Perceived emphasis on hours and lack of emphasis on teamwork
Flexibility	Traditional ladder with some accommodations for part-time

Source: Blaqwell, Inc.

Approaches to Associate Management

Over 60% of firms are changing performance evaluation and 50% are modifying compensation methods

	Contemplating	In Process	Completed	No Change
Hiring goals for Full Time Associates	14%	43%	35%	8%
Hiring goals for Summer Associates	16%	35%	41%	8%
Performance evaluation	11%	31%	31%	27%
Compensation methods	30%	35%	14%	21%

A subset of firms already aligned hiring goals and performance to firm performance

- **Increasing the variable component of Associate compensation to ensure that rewards are aligned with business priorities is very much emerging**
- **The lockstep elevation process is being removed or modified by a number of firms**

# of respondents = 38

Coping Mechanisms

What Can and Should Firms Be Doing…

- **align associate compensation with firm performance**
- **assess the firm’s leverage model in light of expected demand**
- **be proactive in offering clients alternatives to the billable hour model**
- **add laterals in line with strategic priorities but be careful**

Disclosure Notice